LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 192** HLS 09RS 548
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 11, 2009 12:05 PM **Author:** ABRAMSON
Dept./Agy.: Revenue
Subject: Reduction in severance rate for tertiary oil recovery **Analyst:** Deborah Vivien

TAX/SEVERANCE TAX EG DECREASE GF RV See Note
Reduces the severance tax levied after payout on certain oil production within a CO_2 tertiary recovery program

Current law provides an exemption from severance taxes for oil produced from a qualified tertiary recovery project until such project has reached payout. Once payout has been achieved, current severance tax rates apply.

Proposed law, with regard to production after payout is achieved, lowers the severance tax rate to 50% of the current rates that would apply on all oil recovered using qualified carbon dioxide tertiary recovery extraction which is permitted on or after July 1, 2009.

Effective July 1, 2009

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	DECREASE	DECREASE	DECREASE	DECREASE	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	DECREASE	DECREASE	DECREASE	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The Department of Revenue reports a potential one-time cost of making changes to the tax processing system to include this severance rate adjustment.

REVENUE EXPLANATION

Tertiary recovery projects use gases to further extract oil or natural gas after primary (pumping equipment) and secondary (water or gas injected to displace oil) methods have exhausted their effectiveness. Oil extracted from a certified tertiary project is not subject to state severance tax until the well breaks even (reaches payout). The proposed legislation will lower the severance rate after payout from current rates (12.5%, 6.25%, or 3.125% depending on well volume) to 1/2 of these rates on oil extracted by qualified tertiary recovery projects after payout has been achieved for projects permitted after July 1, 2009.

It appears that projects using tertiary recovery must petition the Department of Natural Resources (DNR) in order to be declared a tertiary project eligible for incentives. Assuming this is the same procedure that is considered as a qualified and permitted project, there are two qualified tertiary recovery oil projects within the state, one at Lockhart Crossing field in Livingston Parish, which is in production, and one in the Delphi field in Richland, Franklin and Madison parishes. Presumably, neither of these projects will participate in the severance tax reduction after payout since the bill restricts its benefits to projects that qualify after July 1, 2009. Both projects are operated by the same company with Lockhart Crossing being the only known tertiary well currently in production. The company has another proposed site in Concordia parish in the future and is planning a CO_2 pipeline across south Louisiana. Committee testimony also indicated other enterprises that are currently investigating sites within the state. Thus, the state and local governments will forego severance tax collections related to oil production from all future qualified tertiary wells, once they reach payout.

The Lockhart Crossing well has been in the payout period since October 11, 2008, but it is not clear when payout will be reached. Though DNR expects that tertiary wells will take about two years to reach payout based on average cost figures, the reported production of 589,000 barrels per year from the existing well and oil prices that remain above the long term average suggests that the payout time frame may be shorter than that. DNR also worked up estimated revenue losses per 100,000 barrels of annual production, a $50/bbl value, and 12.5% tax rate in the absence of this bill. Revenue losses would be $312,000 per year per 100,000 barrels of production after payout under this example. However, according to production estimates of the well currently in production, revenue losses may be closer to $1.8 million per year for the state and 20% or $370,000 for locals for wells with production of this magnitude.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

Gregory V. Albrecht
Gregory V. Albrecht
Chief Economist